

## Message Text

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43

ACTION TRSE-00

INFO OCT-01 ARA-16 ISO-00 EB-11 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 L-03 TAR-02 DRC-01

/107 W

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P R 111617Z MAY 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 2676

INFO AMCONSUL CALI

AMCONSUL MEDELLIN

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PASS TREASURY FOR DEP ASST SEC MARKS

EO 11652: NA

TAGS: ETRD CO

SUBJ: COUNTERVAILING DUTY CUT FLOWERS GOC TAX STUDY

REF: STATE 067239

1. FINATT SHOWN INFORMALLY FIRST DRAFT OF GOC STUDY DESCRIBING RATIONALE FOR CAT INCENTIVES TO FLOWER EXPORTERS. ESSENCE OF GOC POSITION IN THE FIRST DRAFT IS THAT EXISTING INDIRECT TAX PAYMENTS ON EXPORT PORTION OF TOTAL CUT FLOWER PRODUCTION EXCEEDS THE EFFECTIVE VALUE OF THE CAT AND THUS FULL AMOUNT OF CAT SHOULD BE EXEMPT FROM THE IMPOSITION OF COUNTERVAILING DUTIES\* IT APPEARS THAT GOC STUDY MAY CONTAIN BASIC ELEMENTS REQUIRED TO PRODUCE A MUTUALLY SATISFACTORY SETTLEMENT ALONG THE LINES OUTLINED BY MARKS IN REFTEL. COLOMBIAN DEL NOW PLANNING TO PRESENT STUDY IN WASHINGTON TUESDAY MAY 14.

2. THE EFFECTIVE VALUE OF CAT IS OBTAINED BY DISCOUNTING THE FACE VALUE OF THE CAT BY 24 PERCENT OR THE DIFFERENTIAL REQUIRED TO

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SELL A NEW CAT ON THE STOCK EXCHANGE. ACCORDING TO THIS CAL-

CULATION THE EFFECTIVE CAT IS TEN PERCENT OR  $(13 - (.24)(13))$ . THIS ASSUMES THE CAT HAS A ONE YEAR MATURITY. HOWEVER, WE UNDERSTAND THE MATURITY IS PRESENTLY ONLY SIX MONTHS. THE EFFECTIVE VALUE OF CAT WITH A SIX MONTH MATURITY IS 11 PERCENT. FURTHERMORE GOC CALCULATION DOES NOT TAKE INTO ACCOUNT FACT THAT A SMALL PORTION OF CATS ISSUED ARE HELD TO MATURITY. IN THIS CASE EFFECTIVE VALUE OF CATS ALSO A FUNCTION OF THE MARGINAL TAX RATE OF THE FLOWER EXPORTER SINCE THE CAT IS EXEMPT FROM INCOME AND CORPORATE TAXES. A GOOD DISCUSSION OF THE EFFECTIVE VALUE OF CAT CAN BE FOUND IN THE IMF STUDY DM/73/4 PREPARED BY TEIGEIRO ON JAN 11, 1973 APPENDIX A.

3. INDIRECT TAXES ARE DEFINED AS VARIABLE COSTS THAT ARE RELATED SOLELY TO EXPORT PRODUCTION WHICH ARE PASSED ON TO THE CONSUMER. TWO TYPES OF INDIRECT TAXES ARE DESCRIBED. THE FIRST TYPE CALLED EXPLICIT INDIRECT TAXES ARE EQUAL TO 8.3 PERCENT OF THE VALUE OF EXPORT SALES FOR THE FIRMS SURVEYED. THEY INCLUDE ITEMS SUCH AS (A) HEALTH INSURANCE TAXES (B) MANPOWER TRAINING TAXES (C) UNEMPLOYMENT COMPENSATION TAXES (D) CUSTOMS DUTIES AND (E) SALES TAXES.

4. THE SECOND CATEGORY IS CALLED IMPLICIT INDIRECT TAXES WHICH AMOUNTED TO 3.3 PERCENT OF THE VALUE OF TOTAL EXPORT SALES FOR THE FIRMS SURVEYED. THESE TAXES INCLUDE DOMESTIC COSTS PAID BY THE EXPORTERS BECAUSE THEY ARE FORCED TO PURCHASE NECESSARY INPUTS FROM HIGHER PRICED DOMESTIC PRODUCERS WHO ARE PROTECTED BY GOC IMPORT POLICIES. THE GOC MAKES AN INTERESTING ARGUMENT HERE WORTHY OF CAREFUL CONSIDERATION. FINANCE MIN OFFICIAL STATED THAT THIS FORM OF INDIRECT TAX IS CURRENTLY BEING DISCUSSED AT INTERNATIONAL TRADE MEETINGS AND AS YET HAS NOT BEEN ACCEPTED AS A LEGITIMATE INDIRECT TAX OFF-SET UNDER GATT RULES\*

5. COLOMBIAN DEL WILL DELIVER STUDY TO TREASURY ON MAY 14. THE DEL WILL BE LED BY DR ENRIQUE LOW ECONOMIC SEC TO THE PRESIDENT AND THE FOLLOWING ADDITIONAL PARTICIPANTS ARE ALSO LEAVING COLOMBIA TO JOIN DEL: JOHN VAUGHAN, CHAIRMAN OF THE BOARD, COLOMBIAN FLOWERS ASSOC AND CAMILO SANZ DE SANTAMARIA, MGR, COLOMBIAN FLOWER ASSOCIATION.  
VAKY

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** IMPORTS, CUSTOMS DUTIES, COUNTERVAILING DUTIES, PLANTS (FLORA), MEETINGS, NEGOTIATIONS, EXPORTERS  
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**Copy:** SINGLE  
**Draft Date:** 11 MAY 1974  
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**Disposition Case Number:** n/a  
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**Disposition Date:** 28 MAY 2004  
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